

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Mills Township	County Midland
Fiscal Year End 3/31/06	Opinion Date 5/19/06	Date Audit Report Submitted to State 8/11/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES **NO** Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, CPA's and Business Consultants		Telephone Number 989-631-6060	
Street Address 6018 Eastman Avenue		City Midland	State MI
Zip 48640			
Authorizing CPA Signature 	Printed Name Michael R. Zimmerman	License Number 1101018243	

Mills Township
Midland County, Michigan
Annual Financial Statements
and
Auditors' Report
March 31, 2006

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Mills Township
List of Elected and Appointed Officials
March 31, 2006

Township Board

Daniel Bloom - Supervisor

Sara Pitch - Treasurer

Maxine Brink - Clerk

Alan Wendt - Trustee

Dan Lehman-Trustee



6018 Eastman Avenue
Midland, MI 48640
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Independent Auditors' Report

To the Township Board
Mills Township
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Mills Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund information of Mills Township as of March 31, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of April 1, 2005.

The management’s discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mills Township’s basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

May 19, 2006

Midland, Michigan

**Mills Township
Management's Discussion and Analysis
For the Year Ended March 31, 2006**

Mills Township (the "Township"), Michigan is in its first year of implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Township's management's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

This is the first financial report presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34 issued in June of 2000. Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

Overview of Financial Statements

The annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information, and other supplemental information. Generally Accepted Accounting Principles (GAAP) according to GASB 34 now requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

Government-wide Financial Statements:

The Government-wide statements are new and provide a perspective of the Township as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two Government-wide statements: The Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets (page 4-1) combines and consolidates the governmental fund current financial resources (short-term spendable resources) with capital assets, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of the various townships' services.

When analyzed together, the two statements help the reader determine whether the Township is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Township can be divided into two categories: governmental funds and fiduciary fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year (fund balance).

**Mills Township
Management's Discussion and Analysis
For the Year Ended March 31, 2006**

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, fire protection, rubbish collection and capital project funds, each of which are considered to be a major fund.

The Township adopts an annual appropriated budget for both funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*, and other supplemental information concerning Township's indebtedness, concerning budgetary information for the Township's major funds.

SUMMARY OF NET ASSETS:

Township's Net Assets

The following summarizes the Township's net assets at fiscal year ended March 31, 2006.

Assets	
Current assets	\$ 382,492
Capital assets (net)	<u>832,778</u>
Total assets	<u>1,215,270</u>
Liabilities	
Current liabilities	55,438
Long-term liabilities	<u>222,425</u>
Total liabilities	<u>277,863</u>
Net assets	
Investment in capital assets, net of related debt	691,434
Unrestricted	<u>245,973</u>
Total net assets	<u>\$ 937,407</u>

**Mills Township
Management's Discussion and Analysis
For the Year Ended March 31, 2006**

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$84,225.

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of Mills Township, assets exceeded liabilities by \$937,407.

A portion of the Township's net assets reflects its investment in capital assets (e.g. land, buildings, equipment), less any related debt used to acquire those assets that are still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township's Changes in Net Assets

Revenues:

Program revenue	
Charges for services	\$ 103,880
Capital grants and contributions	63,657
General revenue:	
Property taxes	167,897
State shared revenue	133,561
Interest and investment earnings	3,964
Miscellaneous	19,102
	<hr/>
Total revenues	\$ 492,061

Expenses:

General government	\$ 167,850
Public safety	74,103
Public works	126,455
Community and Economic Development	1,930
Recreation and culture	33,665
Interest on long-term debt	3,833
	<hr/>
Total expenses	407,836
Change in net assets	84,225
Net assets - beginning	853,182
	<hr/>
Net assets - ending	\$ 937,407

Governmental activities

The Township's total fund balance for governmental funds decreased by \$22,248. The decrease is mainly due to establishment of new capital project fund for construction of a water supply system, and start-up expenses incurred in this fund before the beginning of the construction in the following fiscal year. Revenues and expenses in general fund, fire fund, and solid waste fund stayed consistent in all funds when compared to prior year.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of

**Mills Township
Management's Discussion and Analysis
For the Year Ended March 31, 2006**

\$327,054. 100% of the \$327,054 fund balance constitutes unreserved fund balance, which is available for spending at the Township's discretion.

The general fund is the main operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$133,087. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 61% of total general fund expenditures.

The fund balance of the General Fund increased by \$863 during the current fiscal year. This is primarily attributable to consistent budgeting on part of the township.

The fund balance of the Fire Fund increased by \$24,435 during the current fiscal year, which is the result of 0.5 mills increase in fire fund millage for the purchase of a new fire truck.

The fund balance of the Solid Waste Fund increased by \$12,621 during the current fiscal year, which was a result of an increase in solid waste special assessment from \$130 to \$140 per parcel.

The negative fund balance of \$60,167 in the Capital Project Fund is mainly due to start-up costs incurred for construction of water supply system improvements before the beginning of the construction in the following fiscal year. The Township received a grant on April 20, 2006 from the United States Department of Agriculture in the amount of \$1,652,000 to assist in construction of this project. The Township will also issue bonds in the amount of \$2,468,000 to help finance the remainder of the construction costs.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various Township programs.

Differences between the original and final amended budgets were relatively minor.

Mills Township Management's Discussion and Analysis For the Year Ended March 31, 2006

Capital Assets and Debt Administration:

Capital Assets

The Township's investment in capital assets for its governmental activities as of March 31, 2006, amounted to \$832,778 (net of accumulated depreciation). Investment in capital assets included land, buildings, and equipment.

	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 60,167	\$ -	\$ 60,167
Capital assets being depreciated				
Buildings and improvements	816,255	-	-	816,255
Machinery and equipment	62,950	5,300	-	68,250
Vehicles	320,000	210,000	-	530,000
Capital assets	1,199,205	215,300	-	1,474,672
Less:				
Accumulated depreciation	(599,227)	(42,667)	-	(641,894)
Governmental activities capital assets, net	\$ 599,978	\$ 232,800	\$ -	\$ 832,778

Long-term Debt

At the end of the current fiscal year, the Township had total long-term debt outstanding of \$222,425. The increase in the balance of long-term debt is a result of issuance of a note payable in the amount of \$205,000 to finance the purchase of a new fire truck. The Township also received a grant from The Herbert H. and Grace A. Dow Foundation in the amount of \$63,656 to help with the purchase of the fire truck. This amount was used to pay down the principal of the loan obtained for the fire truck.

	Balance April 1, 2005	Additions	Reductions	Balance March 31, 2006
Fire Truck Loan - Chemical Bank - 2003	\$ 96,098	\$ -	\$ 15,017	\$ 81,081
Fire Truck Loan - Chemical Bank - 2005	-	205,000	63,656	141,344
	\$ 96,098	\$ 205,000	\$ 78,673	\$ 222,425

Economic Factors and Next Year's Budget

The following factors were considered in preparing the Township's budget for the 2006-2007 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in economy. For 2005-2006, the Township received \$133,561 in state shared revenue, representing 61% of the revenue in the General Fund. The amounts of the state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Request for Information

This financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances. If you have questions about this report or would like additional information, contact the Township Clerk's office at Mills Township, Midland County, Michigan.

Mills Township
Statement of Net Assets
March 31, 2006

Assets

Cash and cash equivalents	\$ 338,335
Receivables	
Taxes	43,029
Due from other funds	1,128
Capital assets not being depreciated	60,167
Capital assets - net of accumulated depreciation	<u>772,611</u>
 Total assets	 <u>1,215,270</u>

Liabilities

Accounts payable	
Noncurrent liabilities	55,438
Due within one year	31,616
Due in more than one year	<u>190,809</u>
 Total liabilities	 <u>277,863</u>

Net Assets

Invested in capital assets, net of related debt	610,353
Unrestricted	<u>327,054</u>
 Total net assets	 <u>\$ 937,407</u>

Mills Township
Statement of Activities
For the Year Ended March 31, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
Functions/Programs					
Primary government					
Governmental activities					
General government	\$ 167,850	\$ -	\$ -	\$ -	\$ (167,850)
Public safety	74,103	-	-	63,657	(10,446)
Public works	126,455	103,880	-	-	(22,575)
Community and economic development	1,930	-	-	-	(1,930)
Recreation and culture	33,665	-	-	-	(33,665)
Interest on long-term debt	3,833	-	-	-	(3,833)
Total governmental activities	<u>\$ 407,836</u>	<u>\$ 103,880</u>	<u>\$ -</u>	<u>\$ 63,657</u>	<u>(240,299)</u>
General revenues					
Property taxes					167,897
State shared revenue					133,561
Unrestricted investment earnings					3,964
Miscellaneous					<u>19,102</u>
Total general revenues and transfers					<u>324,524</u>
Change in net assets					84,225
Net assets - beginning of year					<u>853,182</u>
Net assets - end of year					<u>\$ 937,407</u>

**Mills Township
Governmental Funds
Balance Sheet
March 31, 2006**

	<u>Special Revenue Fund</u>				Total
	<u>General</u>	<u>Fire Fund</u>	<u>Solid Waste Fund</u>	<u>Capital Project Fund</u>	<u>Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 115,315	\$ 107,187	\$ 115,532	\$ 301	\$ 338,335
Receivables					
Taxes	11,614	13,472	17,943	-	43,029
Due from other funds	<u>12,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,795</u>
 Total assets	 <u>\$ 139,724</u>	 <u>\$ 120,659</u>	 <u>\$ 133,475</u>	 <u>\$ 301</u>	 <u>\$ 394,159</u>
Liabilities					
Accounts payable	\$ 6,637	\$ -	\$ -	\$ 48,801	\$ 55,438
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,667</u>	<u>11,667</u>
 Total liabilities	 <u>6,637</u>	 <u>-</u>	 <u>-</u>	 <u>60,468</u>	 <u>67,105</u>
Fund Balances					
Unreserved, reported in:					
General fund	133,087	-	-	-	133,087
Special revenue funds	<u>-</u>	<u>120,659</u>	<u>133,475</u>	<u>(60,167)</u>	<u>193,967</u>
 Total fund balances	 <u>133,087</u>	 <u>120,659</u>	 <u>133,475</u>	 <u>(60,167)</u>	 <u>327,054</u>
 Total liabilities and fund balances	 <u>\$ 139,724</u>	 <u>\$ 120,659</u>	 <u>\$ 133,475</u>	 <u>\$ 301</u>	 <u>\$ 394,159</u>

**Mills Township
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
March 31, 2006**

Total fund balances for governmental funds	\$ 327,054
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Total net assets for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	60,167
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Capital assets - net of accumulated depreciation	772,611
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Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.

<u>(222,425)</u>

Net assets of governmental activities	<u><u>\$ 937,407</u></u>
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Mills Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2006

		Special Revenue Fund			Governmental
	General	Fire Fund	Solid Waste Fund	Capital Project Fund	Funds Total
Revenues					
Taxes	\$ 68,197	\$ 99,700	\$ 103,880	\$ -	\$ 271,777
Licenses and permits	240	-	-	-	240
Federal grants	-	-	-	-	-
Interest income	3,063	677	224	-	3,964
Rental income	3,105			-	3,105
Other revenue	12,592	66,822	-	-	79,414
Total revenues	<u>220,758</u>	<u>167,199</u>	<u>104,104</u>	<u>-</u>	<u>492,061</u>
Expenditures					
Current					
General government	144,028	-	-	-	144,028
Public safety	-	54,856	-	-	54,856
Public works	34,972	-	91,483	60,167	186,622
Community and economic development	1,930	-	-	-	1,930
Recreation and culture	33,665	-	-	-	33,665
Capital outlay	5,300	210,402	-	-	215,702
Debt service					
Principal retirement	-	78,673	-	-	78,673
Interest and fiscal charges	-	3,833	-	-	3,833
Total expenditures	<u>219,895</u>	<u>347,764</u>	<u>91,483</u>	<u>60,167</u>	<u>719,309</u>
Excess (deficiency) of revenues over expenditures	863	(180,565)	12,621	(60,167)	(227,248)
Other financing sources					
Issuance of debt	-	205,000	-	-	205,000
Net change in fund balance	863	24,435	12,621	(60,167)	(22,248)
Fund balance - beginning of year	<u>132,224</u>	<u>96,224</u>	<u>120,854</u>	<u>-</u>	<u>349,302</u>
Fund balance - end of year	<u>\$ 133,087</u>	<u>\$ 120,659</u>	<u>\$ 133,475</u>	<u>\$ (60,167)</u>	<u>\$ 327,054</u>

Mills Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balances - Total governmental funds \$ (22,248)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(42,667)
Capital outlay	275,467

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Debt issued	(205,000)
Repayments of long-term debt	<u>78,673</u>

Change in net assets of governmental activities \$ 84,225

**Mills Township
Fiduciary Funds
Statement of Assets and Liabilities
March 31, 2006**

	Tax Collection Fund
Assets	
Cash and cash equivalents	\$ 1,128
Liabilities	
Due to other funds	\$ 1,128

Mills Township
Notes to Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Mills Township is governed by an elected five-member Board.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the revenue and expenditures of the government's fire protection and emergency rescue activities.

Mills Township
Notes to Financial Statements
March 31, 2006

The Solid Waste Fund accounts for the revenue and expenditures with the government's refuse collection operation.

The Capital Projects Fund accounts for the construction of water lines in the township.

Additionally, the government reports the following:

Current Tax Collection Fund accounts for property taxes and other deposits collected on behalf of other governmental units.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$41,474,247, on which ad valorem taxes consisted of 1.2562 mills for operating purposes and 2.5 mills for fire operating purchases. This resulted in \$68,197 for general fund and \$99,700 for fire fund for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Mills Township
Notes to Financial Statements
March 31, 2006

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Vehicles	25 years
Machinery and equipment	5 to 7 years

Long-term obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the Township's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Township is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Fire Fund. All annual appropriations lapse at fiscal year end.

Prior to March 1, the Township Supervisor submits to the Township board a proposed operating budget for the fiscal year commencing the following April 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to April 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Deficit fund balance

The Capital Project Fund is currently operating under a deficit fund balance. The negative fund balance is mainly due to start-up costs incurred for construction of water supply system improvements. The Township received a grant subsequent to year end from the United State Department of Agriculture in the amount of \$1,652,000 to assist in construction of this project.

Mills Township
Notes to Financial Statements
March 31, 2006

NOTE 3 - DEPOSITS

At year end the government's deposits were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents
Governmental activities	\$ 338,335
Fiduciary funds	<u>1,128</u>
Total	<u>\$ 339,463</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, certificates of deposit)	\$ <u>338,335</u>	\$ <u>1,128</u>

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct

investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Concentration of credit risk – The Township has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of year end, \$246,672 of the Township's bank balance of \$346,672 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Mills Township
Notes to Financial Statements
March 31, 2006

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 60,167	\$ -	\$ 60,167
Capital assets being depreciated				
Buildings, additions and improvements	816,255	-	-	816,255
Machinery and equipment	62,950	5,300	-	68,250
Vehicles	320,000	210,000	-	530,000
Total capital assets being depreciated	1,199,205	215,300	-	1,414,505
Less accumulated depreciation for				
Buildings, additions and improvements	554,971	22,170	-	577,141
Machinery and equipment	41,056	4,197	-	45,253
Vehicles	3,200	16,300	-	19,500
Total accumulated depreciation	599,227	42,667	-	641,894
Net capital assets being depreciated	599,978	172,633	-	772,611
Governmental activities capital assets, net	\$ 599,978	\$ 232,800	\$ -	\$ 832,778

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 23,822
Public safety	18,845
Total governmental activities	<u>\$ 42,667</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Agency	\$ 1,128
General Fund	Capital Project Fund	11,667
		<u>\$ 12,795</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) transactions are recorded in the accounting system, and 2) payments between funds are made.

Mills Township
Notes to Financial Statements
March 31, 2006

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Installment purchase agreements									
Fire Truck loan - Chemical Bank - 2003	\$ 120,000	2012	4.05%	\$12,471 - \$14,049	\$ 96,098	\$ -	\$ 15,017	\$ 81,081	\$ 14,000
Fire Truck loan - Chemical Bank - 2005	205,000	2015	4.79%	\$13,544 - 17,934	-	205,000	63,656	141,344	17,616
Total bonds payable					<u>\$ 96,098</u>	<u>\$ 205,000</u>	<u>\$ 78,673</u>	<u>\$ 222,425</u>	<u>\$ 31,616</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending March 31,	Governmental Activities	
	Principal	Interest
2007	\$ 31,616	\$ 3,042
2008	26,015	8,643
2009	27,169	7,490
2010	28,375	6,284
2011	29,634	5,025
2012-2015	<u>79,616</u>	<u>8,281</u>
	<u>\$ 222,425</u>	<u>\$ 38,765</u>

Mills Township
Notes to Financial Statements
March 31, 2006

NOTE 7 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The Township participates in a defined contribution retirement plan administered by Gleaner Life Insurance Company. The plan covers all members of the Township Board. The amount of contributions is based upon amount of compensation earned. The contributions amounted to \$10,647 for the year ended March 31, 2006.

NOTE 9 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 10 - SUBSEQUENT EVENT

On April 20, 2006 the Township obtained a grant from United States Department of Agriculture in the amount of \$1,652,000 to construct water supply system improvements to serve properties in Mills Township. The Township will also issue bonds in the amount of \$2,468,000 to help finance the remainder of the construction costs.

NOTE 11 - ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The Surrey Township has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The Township has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes assets not previously accounted for by the Township as well as assets totaling approximately \$1,199,205 that would previously have been reported in the General Fixed Assets Account Group. Accumulated depreciation of \$599,227 has also been recorded as of April 1, 2005 to reflect depreciation of the assets in prior years. The Township does not own any roads and bridges, and accordingly no infrastructure has been recognized as capital assets.

The governmental activities column includes bonds and other long-term obligations totaling \$96,098, previously reported in the General Long-Term Debt Account Group.

Mills Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 59,560	\$ 59,560	\$ 52,023	\$ (7,537)
Administration fee	5,003	5,003	16,174	11,171
Licenses and permits	220	220	240	20
State revenue sharing	133,315	133,315	133,561	246
Interest income	2,302	2,302	3,063	761
Rental income	2,250	2,250	3,105	855
Other revenue	12,050	12,040	12,592	552
Total revenues	<u>214,700</u>	<u>214,690</u>	<u>220,758</u>	<u>6,068</u>
Expenditures				
General government				
Township board	81,815	80,681	81,973	1,292
Supervisor	10,132	10,432	10,395	(37)
Clerk	9,740	9,740	9,570	(170)
Board of review	2,550	3,200	2,700	(500)
Treasurer	9,740	10,540	10,519	(21)
Assessor	13,235	14,235	12,212	(2,023)
Elections	4,000	4,000	1,050	(2,950)
Buildings and grounds	18,300	19,150	15,609	(3,541)
Total general government	<u>149,512</u>	<u>151,978</u>	<u>144,028</u>	<u>(7,950)</u>
Public works				
Drains	315	315	282	(33)
Highways, streets and bridges	53,900	53,900	34,690	(19,210)
Street lighting	3,000	3,000	-	(3,000)
Total public works	<u>57,215</u>	<u>57,215</u>	<u>34,972</u>	<u>(22,243)</u>

Mills Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Community and economic development				
Planning	3,550	3,550	1,930	(1,620)
Recreation and culture				
Parks and recreation	48,950	53,043	28,150	(24,893)
Library	-	5,515	5,515	-
Total recreation and culture	48,950	58,558	33,665	(24,893)
Capital outlay	-	5,000	5,300	300
Total expenditures	259,227	276,301	219,895	(56,406)
Excess (deficiency) of revenues over expenditures	(44,527)	(61,611)	863	62,474
Fund balance - beginning of year	132,224	132,224	132,224	-
Fund balance - end of year	<u>\$ 87,697</u>	<u>\$ 70,613</u>	<u>\$ 133,087</u>	<u>\$ 62,474</u>

Mills Township
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes	\$ 56,865	\$ 75,715	\$ 99,700	\$ 23,985
Interest income	-	103	677	574
Other revenue	-	2,550	66,822	64,272
	<u>56,865</u>	<u>78,368</u>	<u>167,199</u>	<u>88,831</u>
Expenditures				
Current				
Fire department	75,715	75,715	54,856	(20,859)
Capital outlay	-	210,000	210,402	402
Debt service				
Principal retirement	-	82,506	78,673	(3,833)
Interest and fiscal charges	-	-	3,833	3,833
	<u>75,715</u>	<u>368,221</u>	<u>347,764</u>	<u>(20,457)</u>
Excess (deficiency) of revenues over expenditures	(18,850)	(289,853)	(180,565)	109,288
Other financing sources				
Loan proceeds	-	205,000	205,000	-
Net change in fund balance	(18,850)	(84,853)	24,435	109,288
Fund balance - beginning of year	<u>96,224</u>	<u>96,224</u>	<u>96,224</u>	<u>-</u>
Fund balance - end of year	<u>\$ 77,374</u>	<u>\$ 11,371</u>	<u>\$ 120,659</u>	<u>\$ 109,288</u>

Mills Township
Required Supplemental Information
Budgetary Comparison Schedule
Solid Waste Fund
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 96,200	\$ 96,200	\$ 103,880	\$ 7,680
Interest income	82	82	224	142
Total revenues	96,282	96,282	104,104	7,822
Expenditures				
Public works	99,200	99,200	91,483	(7,717)
Excess (deficiency) of revenues over expenditures	(2,918)	(2,918)	12,621	15,539
Fund balance - beginning of year	120,854	120,854	120,854	-
Fund balance - end of year	\$ 117,936	\$ 117,936	\$ 133,475	\$ 15,539

Mills Township
Other Supplemental Information
Schedule of Indebtedness
March 31, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Total
Governmental Activities	4.05%	2007	\$ 14,000	\$ 1,188	\$ 15,188
Fire Truck Loan - 2003	4.05%	2008	12,471	2,717	15,188
Amount of issue - \$ 120,000	4.05%	2009	12,976	2,212	15,188
	4.05%	2010	13,502	1,686	15,188
	4.05%	2011	14,049	1,139	15,188
	4.05%	2012	14,083	570	14,653
			<u>\$ 81,081</u>	<u>\$ 9,512</u>	<u>\$ 90,593</u>
 Fire Truck Loan - 2005	4.79%	2007	\$ 17,616	\$ 1,855	\$ 19,471
Amount of issue - \$ 205,000	4.79%	2008	13,544	5,927	19,471
	4.79%	2009	14,193	5,278	19,471
	4.79%	2010	14,873	4,598	19,471
	4.79%	2011	15,585	3,886	19,471
	4.79%	2012	16,332	3,139	19,471
	4.79%	2013	17,114	2,357	19,471
	4.79%	2014	17,934	1,537	19,471
	4.79%	2015	14,153	678	14,831
			<u>\$ 141,344</u>	<u>\$ 29,255</u>	<u>\$ 170,599</u>



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To The Township Board
Mills Township
Midland County, Michigan

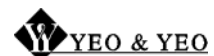
In planning and performing our audit of the financial statements of Mills Township for the year ended March 31, 2006, we considered the Township's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 19, 2006, on the financial statements of Mills Township.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Township personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yeo & Yeo, P.C.

Midland, Michigan
May 19, 2006



PASSWORDS FOR QUICKBOOKS

Presently only one user name is used for QuickBooks and there is no password.

Recommendation

We recommend that user names and passwords be assigned to all users of the program. This will help prevent unwanted use and provide a record of who records each transaction. In addition user access may be limited to specific areas and what types of entries may be made in order to provide additional control over information on the system.

USDA AUDIT REQUIREMENT

To comply with audit requirements of United States Department of Agriculture (USDA) Mills Township will be required to submit an audit report for the fiscal year ended March 31, 2007 and any following years as requested by the USDA. Per the Agreement dated April 20, 2006 the Township is required to provide an audit report prepared in accordance with USDA regulations to allow the USDA to determine that funds have been used in compliance with the proposal, any applicable laws and regulations and the Agreement.